

# GLOBAL ECONOMY AND FINANCIAL MARKETS SHORT COMMENTARY



13 December, 2021

## Global stocks plunged as uncertainty about Omicron. How will the new variant Omicron affect the stock market?

Omicron, the new variant first detected in South Africa, sent the rest of the world into high alert as cases were spotted in Europe and other countries. Governments around the world announced travel restrictions targeting South African countries, prompting risk that the expected economic recovery is impacted.

### Current findings about Omicron

The variant was first reported to WHO from South Africa on 24 November 2021. The most striking revelation about Omicron is that its genetical structure contains around 50 mutations. A total of 32 mutations are found in spike protein, from which the novel virus enters into the human body. In another word, the risks of reinfection in the new variant are higher than other variants. For that reason, WHO has designated it as “a variant of concern.”

Until now, relatively little is known about Omicron. It is still not clear to the aspect of **transmissibility**, **severity of disease** and the **effectiveness of current vaccines**.

**Transmissible:** Until early December, most confirmed cases of the variant are contained to southern African countries, but there are worries Omicron could have spread more widely before scientists there discovered it. Preliminary evidence suggested an increased risk of reinfection with this variant has been detected at faster rates than previous surges in infection and a potential growth advantage.

**Effectiveness of current vaccines:** It has mutations that scientists fear could make it more infectious and less susceptible to vaccines though neither of these effects has yet to be established. Risk aversion rose overnight after Moderna CEO Stephane Bancel said he expected a “material drop” in the effectiveness of existing vaccines to counter Omicron variant, and said it would take several months before a vaccine targeting Omicron could be produced and distributed widely.

## Will Omicron bring tremendous challenge to the financial market?

As the variant cases were found in Europe after South Africa, while European leaders are already struggling with a surge in Covid-19 cases that has made it once again the epicenter of the pandemic. Investors are now increasingly worried that the new variant could again jeopardize the economic recovery. In addition, high inflation remains an insidious threat, especially high inflation is forcing the US Fed and many central banks around the world to speed up their policy tightening.

**US 10-year government bond yield - New variant fears and comments from Federal Reserve Chair Powell hurt risk appetite in late November, with equity losses nearly across the board and long-dated US Treasury yields off sharply.**



Source: Bloomberg

**US Dow Jones Industrial Average Index - News of the occurrence of new variant Omicron knocked the US stock market down almost 4% in late November.**



Source: Bloomberg

### The best scenario, if

The transmissible of the new variant virus has not been mutated, as well as the severity of disease has not increased, and the existing vaccine is still effective against the new variant virus. Therefore, the panic in the market in later November and early December would be considered as 'over worried'.

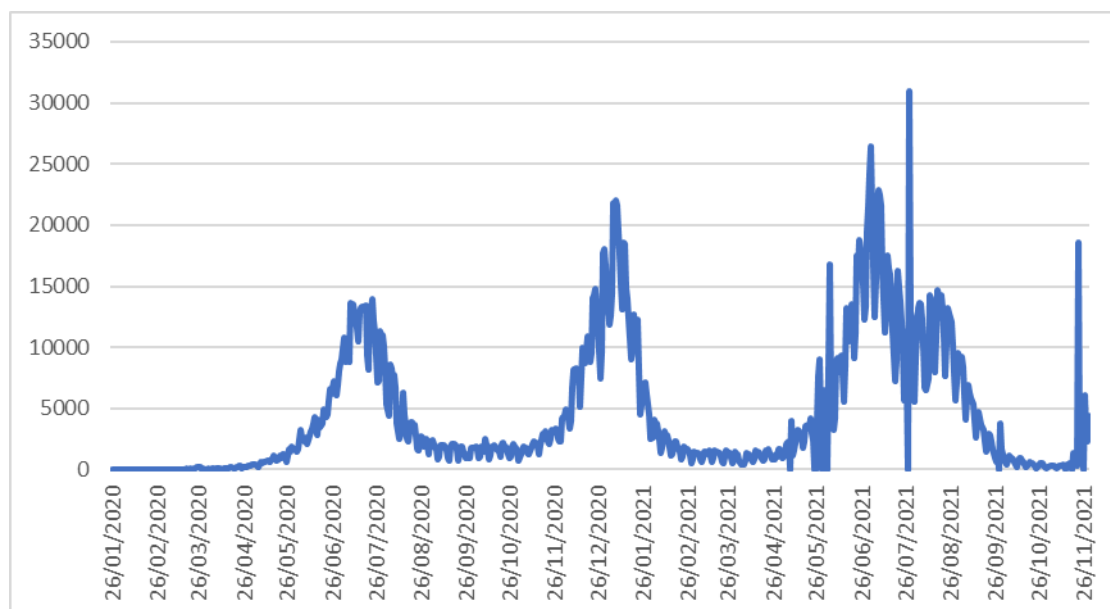
### The worst scenario, if

The transmissible of new variant has been increased and people suffered from severe symptoms and increased the death rate, and the current vaccines do not have sufficient defense against the new variant virus, or even have no effect. If under these circumstances, a huge challenge will pose to the global economy and the financial market.

### Our View

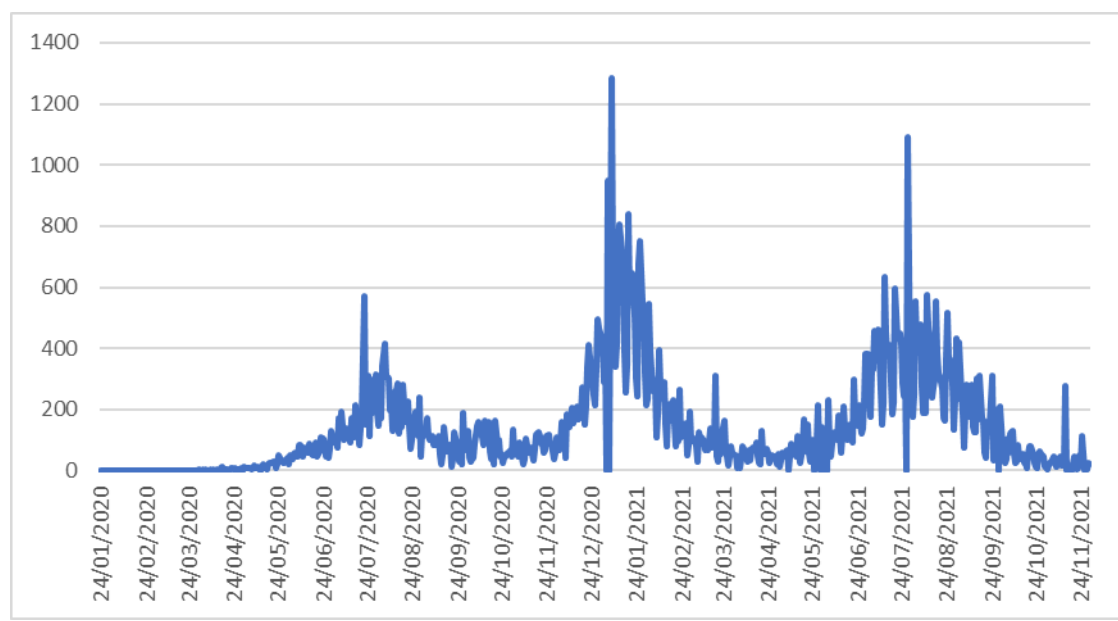
Although there is still lack of sufficient data at this moment to assess whether the new variant will be more transmissible, whether the new variant will lead to any increase in severe symptoms or will lead to any increase in death rate, we expect the new variant may contain relatively high transmission as the number of new confirmed coronavirus cases in South Africa had been significantly increased in recent days. However, preliminary data suggests that most of the patients only suffered mild symptoms and therefore the severity of disease may not have a significant increase. But the number of new confirmed cases is still very limited and thus it still cannot be a very reliable reference. Experts expect that it will take about a month to make a more detailed and reliable analysis of the new mutant strain of Omicron. Before we are able to know more about the new variant, it remains an uncertainty to the market.

***The number of new confirmed coronavirus cases per day in South Africa has increased significantly since late November.***



Source: Bloomberg

***The number of new confirmed coronavirus death cases per day in South Africa has no significant increase for the time being.***



**Source: Bloomberg**

**Source: The Business Times, CNBC, SCMP, Bloomberg, WHO, Financial Times, Yahoo Finance, Fortune**

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